"Effects on productivity from Swedish offshoring"

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This study on Swedish data will focus on the effects on productivity from international relocation of production. The analysis includes both an investigation of the relative characteristics of firms that relocate production internationally, as well as regression analyses to explain the causal relationships between relocation of production of services and goods and productivity. Firm characteristics will include the employee level of education.

The data in use originate from the international trade statistics, The Structural business Register and The Swedish Register of Education as well as from the national accounts. Some of the data have been canalized through the Mona infrastructure for research access to micro data. The favoured concept of offshoring is imports of goods or services from an affiliated or not affiliated firm abroad. Primarily this is calculated as the value of the firm total imported services in relation to the total services purchased, and similarly for goods. Imports normalized with total wage bill and with value added might be used as a robustness check. Due to time series breaks in the international trade series two sets of equations are considered, one for the years up to 2002 and one for the years 2003 and 2004.

International trade in Services and firm performance: evidence from the the UK

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Abstract

Offshoring of services, either to a foreign affiliate or an external overseas supplier, and its effects on developed economies is at the heart of policy discussion. Whilst macro evidence and case studies are not lacking, few studies have used microeconomic data to analyse this issue and they have only looked at the manufacturing sector. This study is the first to use establishment level data for both manufacturing and services sectors in the United Kingdom during the early 2000s to analyse the importance of offshoring and its relationship with firms' performance. In the analysis we distinguish between different types of services imported and the partner country with which the firms trade. We can do this thanks to unique information from three sources: the Annual Respondents Database (ARD), the International Trade in Services Inquiry (ITIS) and the Annual Foreign Direct Investment Inquiry (AFDI) register.

We find that firms that offshore services are mainly firms with international links, i.e. exporters of services and multinationals, both domestic and foreign. Offshorers are on average larger, more capital intensive, use more ICT capital and pay higher wages than firms that do not offshore. We explore in more detail the relationship between offshoring and productivity. We find that, controlling for the other dimensions of global engagement, industrial affiliation, regional location, capital intensity and age, a 10% point increase in offshoring intensity is associated with a 1 % increase in total factor productivity. The effect comes mainly from services sector firms that are domestic and non-globally engaged, i.e. do not export and are not part of a multinational firm. Secondly, we find a productivity ranking of firms in line with the predictions of theoretical trade models: multinationals are the most productive, followed by exporting firms; importers and finally by non-globally engaged firms. Thirdly we find that the returns to offshoring are larger for firms that are ICT intensive. These results are robust to using different measures of productivity and to controls for endogeneity of the offshoring decisions. Finally, we find suggestive evidence that offshoring of high value added services from developed economies has a stronger correlation with increases in productivity.